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RR RUEHMA RUEHPA
DE RUEHOS #0182/01 0721406
ZNR UUUUU ZZH
R 131406Z MAR 07
FM AMCONSUL LAGOS
TO RUEHC/SECSTATE WASHDC 8600
INFO RUEHZK/ECOWAS COLLECTIVE
RUEHUJA/AMEMBASSY ABUJA 8425
RUEHBJ/AMEMBASSY BEIJING 0085
RUEHUL/AMEMBASSY SEOUL 0037
RUEHWR/AMEMBASSY WARSAW 0190
RUEHCD/AMCONSUL CIUDAD JUAREZ 0170
RUEHIT/AMCONSUL ISTANBUL 0171
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RUEAIIA/CIA WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHDC
RHMCSUU/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHINGTON DC

UNCLAS SECTION 01 OF 02 LAGOS 000182

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DEPT PLEASE PASS TO JAMES WILLIAMS, OPIC
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E.O. 12958: N/A

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SUBJECT: DWINDLING POWER SUPPLY LEAVES LAGOS DARK

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¶1. (U) Summary: For the past three months, Lagos State has suffered a critical diminution in its power supply. Public power supply, normally spotty at best, has become almost non-existent. This has more than doubled operating costs for businesses and households for those fortunate enough to have recourse to diesel-powered generators. Lagosians without generators complain of having only four hours of electricity each day, with many neighborhoods going without power for days. Observers say this situation is the worst in recent history. End summary.

Lagos Power Supply Dwindles

¶2. (U) For the past three months, Lagos State has been crippled by power shortages. Public power supply, normally spotty at best, has become almost non-existent. The Power Holding Company of Nigeria (PHCN) reported that while demand for power in Lagos State was 1,200 megawatts (MW), the state currently received only 300MW.

¶3. (SBU) The shortage has more than doubled operating costs for businesses and households, due to running costly diesel-powered generators. Lagosians without generators complain of having only four hours of electricity daily. In some areas, residents report having no power for several days. This situation, which appears to be worsening in spite of the GON's assurances to the contrary, has driven some manufacturers to neighboring states. Managing Director of Ergonomix Group Ltd., Shola Adebajo, told us his plant had been relocated to Enugu State as power there was more reliable. The Nigerian Manufacturers Association recently reported that the manufacturing capacity utilization rate, which hovered around 50% in 2004 and 2005 had fallen to less than 24% by Q1 2007, mainly due to the lack of power. In Lagos, Ergonomix ran on generators full time, he said. In Enugu, there was less demand and Ergonomix would have access to more reliable electricity.

¶4. (SBU) High production costs have affected large manufacturers as well. French Commercial Counselor Marie-France Derbier said the French company Michelin decided to close its 1,300 employee tire manufacturing plant, located in Port Harcourt, in large part because of decreased competitiveness due to high energy costs. Michelin would retain its marketing, distribution, and sales operations in the country.

¶5. (U) Since January, PHCN has rationed power. PHCN reported rationing was necessitated by a shortage of natural gas resulting from damage to the gas pipeline from Escravos to Lagos, which militants have refused to allow the Nigerian National Petroleum Corporation (NNPC) to repair. Power generation at Egbin power station decreased from 700MW to 200MW, an all-time low, and generation at Delta Power Station also decreased significantly.

Integrated Power Projects Don't Deliver

¶6. (U) The GON claimed investment in the ailing power sector since 2004 totaled USD 4.5 billion. In 2004, the GON announced production targets of 10,000 MW by 2007 and 15,000 MW by 2010. On March 7, Minister of Energy Edmund Daukoru announced new production targets of 5,500 MW by May 29 and 15,000 MW by year's end. Currently, 1,500 MW is being generated. A key part of this reform was the implementation of the National Independent Power Project (NIPP), which was designed to improve power supply through the implementation of generation, transmission, distribution, and gas supply plants.

¶7. (U) The NIPP involves the building of eleven power plants,
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seven of which were to be located in the Niger Delta. Those to be built in the Niger Delta include

- Eyean 250MW (Delta State)
- Sapele 250MW (Delta State)
- Calabar 250MW (Cross River)
- Ikot-Abasi 123MW (Akwa Ibom)
- Gbaran Ubie 125 MW (Bayelsa)

Those to be built in southern states are

- Egbema 175MW (Imo State)
- Papalanto 335 MW (Ogun)
- Omotosho 335 MW (Ondo)
- Alaoji 346MW (Abia)

A single plant generating 414MW is planned for construction in the Middle Belt, Kogi State. Few of these stations have been built and none is operating at full capacity.

¶8. (U) States were also building IPPs. Rivers State Governor Peter Odili commissioned the Omoku Power Plant, expected to produce 100 MW. In Akwa Ibom, and IPP would produce 185 MW. Neither of these is yet online.

¶9. (U) In addition to these plants, the GON planned to generate an additional 7,520MW through joint venture partnerships with international oil companies. At a public lecture, PHCN Coordinator Joseph Makoju announced agreements had been reached with China and South Korea for such projects.

Comment

¶10. (SBU) Some industry experts argue the critical element for Nigeria in meeting its energy needs is the ability of firms to negotiate power purchase agreements (PPAs) with

favorable terms upheld by Nigerian authorities. However, there is no legal framework for such PPAs. In the past few years, the GON has come close to breaching the only existing PPA, with U.S. power services company AES Nigeria Barge Ltd., by failing to pay for power purchased. In addition, the government's inability to repair the Escravos to Lagos pipeline demonstrates the degree to which frustration in the Niger Delta can thwart current production as well as GON plans for the future.

¶11. (SBU) In its 2007 budget, the GON projected a yearly GDP growth rate of ten percent as well as expansion of the non-oil sector. However, growth is critically dependent on an adequate power supply. In spite of massive investment and an increase in PHCN's revenue collection, up from 40% in 2003 to 65% in 2005, Nigeria has seen a decline in power generation in the recent past. It seems this worrisome condition will persist, at least for the short term.

BROWNE